

AR64

Business Development Network
University of Alberta
118 Business Building
Edmonton, Alberta T6G 2R6



2000
Nu-Gro
Annual
Report

Cultivating Growth



Budding

Corporate History

From its founding roots in 1987 with the acquisition of Hillview Farms, the Nu-Gro Corporation has dramatically grown to become the leading Canadian manufacturer and marketer of consumer and commercial lawn and garden products and is the world's largest manufacturer of controlled release nitrogen products for the merchant market.

Bayer Merit® brand distribution exclusivity

January 2000

Calgary plant expansion

April 2000

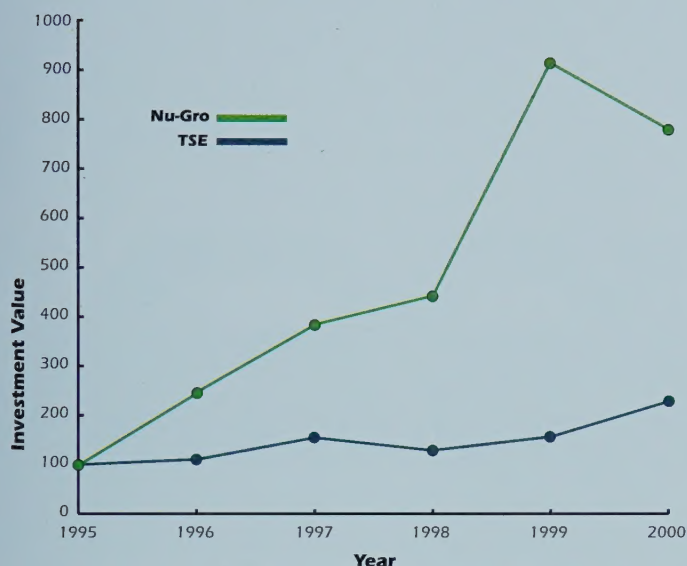
Scotts ProTurf® business acquisition

May 2000

PSCU sales & distribution agreement extended with addition of Poly-S®

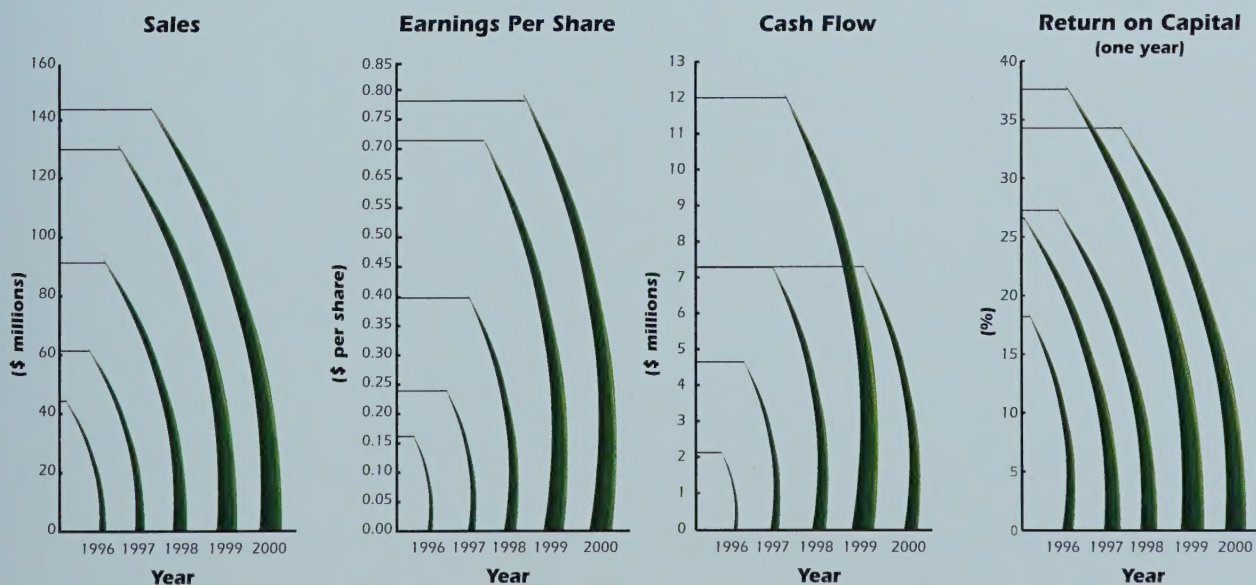
May 2000

**Comparisons of the Five Year Cumulative Total
Shareholder Return on Common Shares of Nu-Gro and the TSE**
(% change)



Nu-Gro is the leader in the national brand fertilizer and pest control markets in Canada and is the world's largest merchant manufacturer and marketer of controlled release nitrogen products. Nu-Gro has experienced average annual growth rates of 25% in revenues and 48% in earnings in the last three years. It is poised for continued strong growth from strategic acquisitions and increased internal growth.

Results



Terra supply agreement



July 2000

40 Year C-I-L license agreement



July 2000

Nutralene® NPK plant announcement



September 2000

Pursell Vigoro Canada acquisition announcement



September 2000



A Message To Our

Your company enjoyed an excellent fiscal year ended September 30, 2000. Our earnings per share on a fully diluted basis were \$0.74 vs. \$0.66 in 1999, on a 9% increase in revenues to \$143 million. These results were slightly ahead of expectations. Full details of our financial and statistical performance are contained in the accompanying charts and in the Management's Discussion and Analysis, which appear in this report.

The past year was full of challenges and we focused our efforts on consolidating recent acquisitions and addressing important issues which have long-term implications for the Company.

- In anticipation of tighter regulations on pesticides, Nu-Gro introduced a full line of products made from natural, organic or botanical-based ingredients, which is marketed under the Green Earth® brand. The customer response to this new Green Earth® line was very positive this past year and we expect an even greater response as we go forward.
 - On January 11, 2000, Nu-Gro and Bayer Inc. announced the appointment of Nu-Gro as the exclusive supplier to the professional turf market in Canada of Bayer's Merit® insecticide product. Merit®, which was recently registered in Canada, has consistently delivered outstanding grub control in turf over the past seven years in the United States. This announcement represents Nu-Gro's commitment to bring leading edge, safe and effective pest control products to the Canadian lawn and garden market.
 - On May 31, 2000, Nu-Gro completed the acquisition of the Canadian professional turf business of The Scotts Company. The transaction included a long-term supply agreement under which Scotts will continue to supply products for Nu-Gro.
- This acquisition complements Nu-Gro's existing professional turf business and will allow us to offer an expanded range of products and services to our customers.
- Nu-Gro's western production and distribution facilities moved to a new location, just north of Calgary, at Crossfield, Alberta. The new plant is significantly larger than our former location and will provide more infrastructure to support our retail customers' expansion, the ProTurf® business and soil packaging capability to expand our product offering in Western Canada.
 - Nu-Gro announced late in the year that it will construct a Nutralene® plant with an annual capacity of 20,000 tons at Terra's Courtright, Ontario facility. The plant should be operational by spring 2001 and will allow us to keep up with the increased demand for high quality controlled release nitrogen in the North American marketplace.
 - Effective November 1, 2000, Nu-Gro completed the acquisition of Pursell Vigoro Canada from Pursell Industries Inc., Birmingham, Alabama. Popular consumer brand names include Vigoro® and So-Green® and professional turf brand names include Par-Ex® and IBDU®. Nu-Gro will acquire the Canadian rights to the Vigoro® trademark under a long-term license agreement with Pursell Vigoro Canada. The high quality brands from Pursell Vigoro Canada will be an excellent addition to our comprehensive range of products. Integrating the businesses during the upcoming year is a top priority in order to maximize plant efficiencies and enhance customer service in terms of sales order processing, warehousing, freight and logistics.
 - Nu-Gro renewed and expanded several corporate contracts to ensure continued growth for its consumer products and fertilizer raw material business segments:

Shareholders

1. The company extended its agreement with ICI Canada (formerly C-I-L Inc.) permitting Nu-Gro's use of the C-I-L trademark for home and garden products in Canada until 2040.
2. Nu-Gro also signed a long-term agreement with Mark Cullen, Canada's leading garden celebrity, to endorse our key brands.
3. Nu-Gro's raw material business expanded its urea supply agreement with Terra to include all of the urea produced by Terra's Courtright, Ontario Granulator II facility. This will increase Nu-Gro's urea supply from 35,000 to 75,000 tons per year and the additional volume will be sold in the specialty fertilizer markets worldwide.
4. Scotts and Nu-Gro renewed the Polymer Sulphur Coated Urea (PSCU) sales and distribution agreement to extend the term to 2005 and added Poly-S® to the agreement. Poly-S® is an important ingredient in the North American ProTurf® product line.
5. Nu-Gro renewed its manufacturing agreement with Aqualon Company, Louisiana, Missouri to produce Nitroform® exclusively for Nu-Gro until July 31, 2005. Nu-Gro has agreed to invest in capital upgrades at the Aqualon facility, which will improve product quality and increase capacity to grow the business.

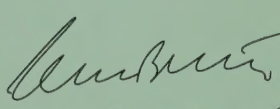
Growth through acquisition has proven to be a very effective way to increase our product offerings and to expand our geographic presence, revenue base and earnings. We have remained faithful to our two main acquisition criteria: we only make acquisitions that are immediately accretive to earnings and that make strategic sense in building our business. The ProTurf® and the Pursell Vigoro Canada acquisitions are no exceptions. These acquisitions make Nu-Gro the undisputed leader

in the supply of fertilizer to golf courses and homeowners in Canada. The Vigoro acquisition will also strengthen our senior management ranks with the addition of Don Gayford as Vice President and General Manager of our consumer products business. Don is a highly skilled executive and his strong background in this industry will be a tremendous asset to Nu-Gro.

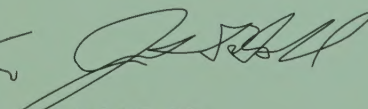
Excellence in customer service is our number one goal and Nu-Gro was rewarded for its efforts when we received Canadian Tire's "Vendor of the Year" award in the lawn and garden category. We are continuously working to enhance our established ability to meet our customers' needs with unparalleled logistics and high quality value added products, services and relationships that will differentiate us from our competitors. We believe that excellent customer service is synonymous with long-term shareholder value.

Despite an increase in both revenues and earnings, and the accomplishments of the past year which enhance our long-term outlook, our shares closed at \$5.50 on September 30, 2000, down from \$6.40 one year earlier. The decline, in our view, mirrors the general lack of interest in smaller capitalization companies in the more traditional industries, regardless of performance and prospects.

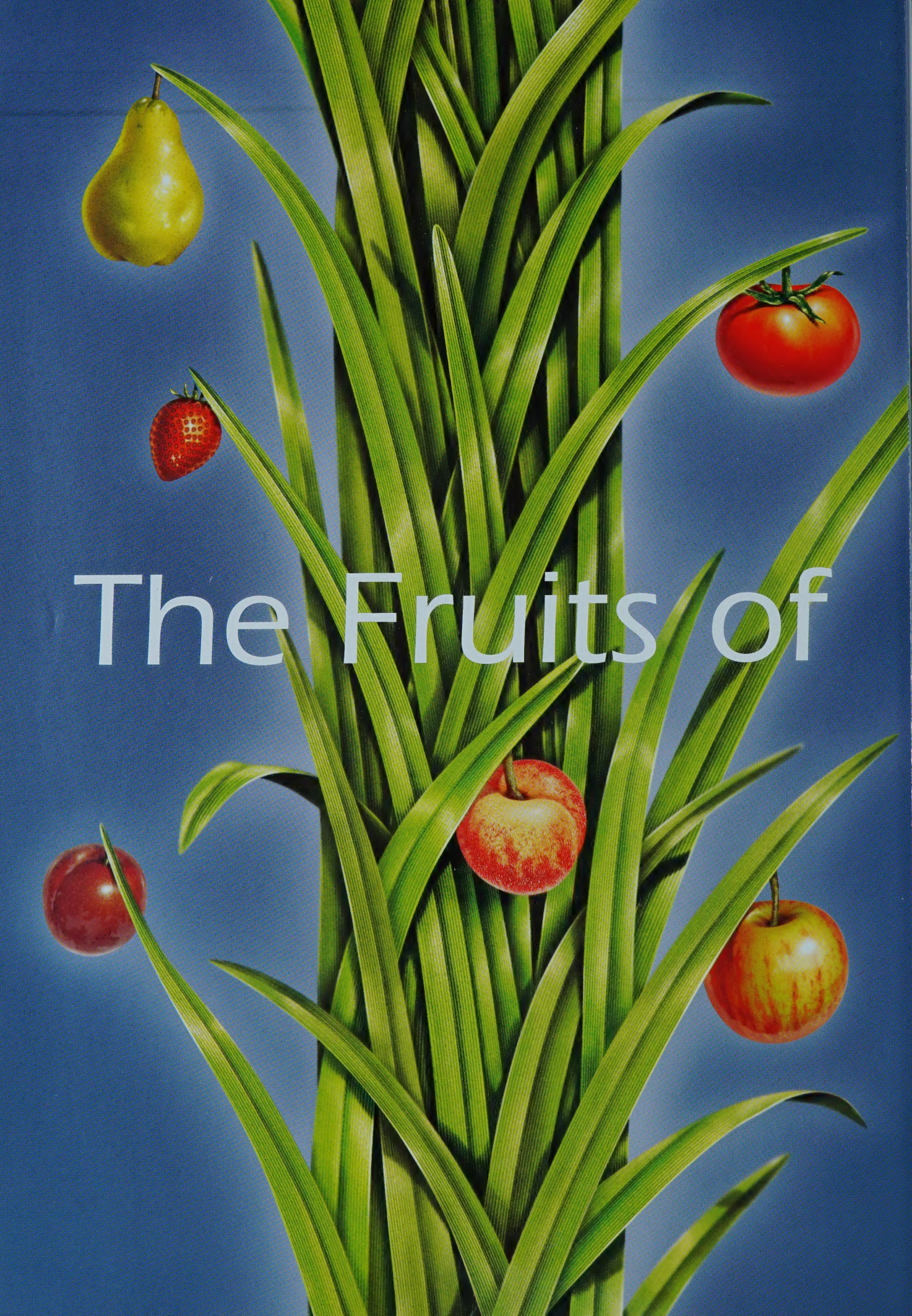
We would like to thank our customers and employees, who have contributed significantly to Nu-Gro's success once again this year. We also acknowledge the continued interests of our shareholders, and our Board of Directors for their meaningful advice and guidance.



Austin C. Beutel,
Chairman



John D. Hill,
President & C.E.O.



The Fruits of



A Year of Achievements

The growth strategy of Nu-Gro is to maintain focus and leadership in the manufacturing, distribution and marketing of lawn and garden products for the consumer and professional markets in Canada and be a global leader in the manufacturing of premium controlled release nitrogen products.

Our Labour

The strategy to broaden our consumer product lines and expand capacity on the nitrogen raw material side has supported continued growth. Increased product offerings under leading brand names combined with strong and broadening key customer relations and unsurpassed logistics capabilities has helped ensure increased returns.



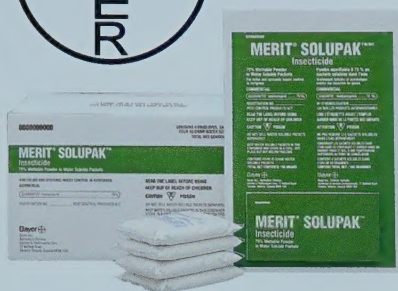
■ The Fruits of Our Labour

Nu-Gro Drives the Bottom Line



If you golf in Canada or in the U.S., it's more than likely that it's Nu-Gro fertilizer providing the nourishment to keep those tees, and fairways and greens in A-1 condition. Nu-Gro's unparalleled commitment to the professional turf business in Canada was further strengthened through the acquisition of the Canadian ProTurf® division of The Scotts Company. This business segment consolidates Nu-Gro's leadership positions in fertilizer and turf protection products in Canada.

ProTurf® is a registered trademark used under license from The Scotts Company

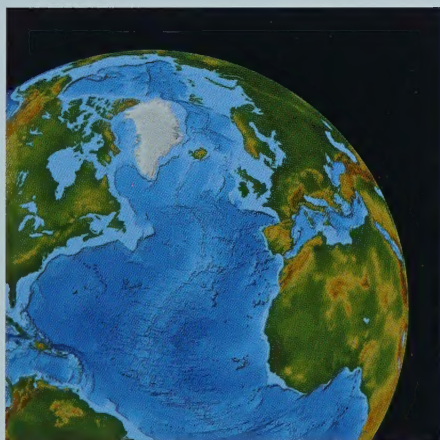
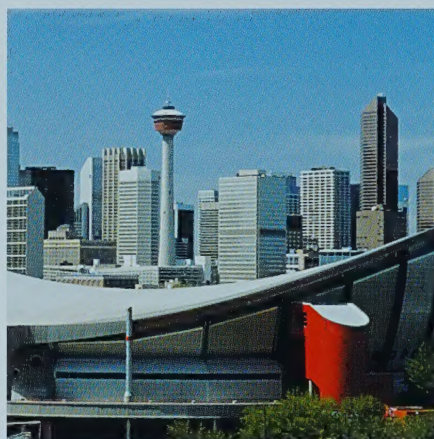


Bayer Merit®

Nu-Gro exclusively distributes the Bayer product Merit® to the Professional Turf industry in Ontario. The level of control of white grubs with Merit is unsurpassed by other products in the turf market. Merit has achieved brand name recognition with consumers in only two seasons. The anticipated expansion of Merit distribution in the future will strengthen the strong contribution of this product to Nu-Gro's consumer product business segment.

Go West: Nu-Gro Expands Into Western Market.

A new and larger manufacturing, warehouse and distribution site in Crossfield, Alberta provides the infrastructure to support our retail customer's expansion, the Scotts ProTurf® business and soil packaging capability to expand Nu-Gro's product offering in Western Canada.



Raw Materials Meeting World Demand

Nu-Gro, with a broad slow release nitrogen portfolio, is well positioned as the leader in the North American market. Our core products are represented by the highly recognized trademarks of Nitroform®, Nutralene®, S.C.U.® and IBDU® throughout North America and worldwide. Exceptional performance, reliability and safety of these products has lead Nu-Gro to be the world's largest merchant marketer of these premium nitrogen sources.

Strategic focus on constantly improving its ability to serve ever expanding markets, Nu-Gro has recently entered into a partnership with Agrium, a Canadian based agricultural and specialty chemicals producer. The partnership will involve a polymer coated urea nitrogen source that complements Nu-Gro's current extensive portfolio. With the addition of this product, Nu-Gro has reinforced its position as the leader in nitrogen for specialty markets.

Maintaining and strengthening market position for all products will keep Nu-Gro at the forefront of technology and provide licensing opportunities from other basic producers.



The Fruits of Our Labour

Building Brands To Build Our Business

Extensive marketing efforts have helped build our brands to increase awareness, loyalty and the purchase of our products. Our powerful, eye-grabbing packaging, in-store merchandising and multi-media advertising campaigns have raised the profile of our brands and driven traffic to our retail customers' shelves across Canada. Nu-Gro has also signed a long-term spokesperson arrangement with Mark Cullen, Canada's leading garden celebrity, to endorse our key brands.





Customer Satisfaction

Annually, the Canadian Tire Corporation awards to one of their vendors in each of three core categories the "Vendor of the Year" award recognizing supply chain and marketing excellence. In the spring of 2000 Canadian Tire chose the Nu-Gro Corporation to receive the "Vendor of the Year" award for the Lawn & Garden Category for 1999. This prestigious award distinguishes vendors that have demonstrated a commitment to growth in our industry through their marketing innovation, brand management and supply chain excellence.

Going Green Earns More Green

Recognizing the growing demand for more "garden friendly" products, Nu-Gro relaunched an expanded Green Earth® line of products. These products contain natural, organic or botanically based ingredients. This full range of lawn and garden fertilizers, pest control and soil products appeal to those seeking an alternative approach to controlling pests and fertilizing their lawns and gardens. Sales surpassed expectations. The Green Earth brand is listed at all major garden retailers, mass merchandisers and home centres across Canada.



Outwitting The Competition

The best defense against unwanted weeds in lawns and patios is a one-two punch with WeedOut (lawn weeds) and WipeOut (grass & weeds in patios and sidewalks) in convenient, trigger applications (spray only where it needs it). Both products were relaunched with new, attention-getting packaging, point of sale posters, banners and national TV, radio and magazine advertising. The strength of these brands is evidenced by widespread listings across Canada at all major retailers. These brands are also sold exclusively at one major warehouse chain.

C-I-L® Extends Its Long Term Licensing Agreement

The C-I-L brand has been a hallmark of quality for a wide range of consumer products in Canada since 1927. The 40-year agreement with ICI Canada Inc. demonstrates Nu-Gro's commitment to the powerful C-I-L trademark and its association with quality, high end lawn and garden products.





Growing

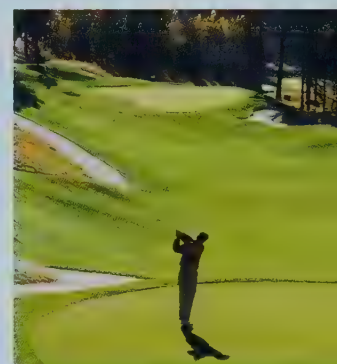


Focused For Growth

This has been an exciting and challenging year as strategic acquisitions made Nu-Gro the most integrated lawn and garden company in Canada. Moving forward, Nu-Gro will maintain its focus and leadership in the manufacturing, distribution and marketing of both consumer and professional products and continue to expand through internal growth and acquisitions that are accretive to earnings.



Further



The company is well-positioned within the exploding lawn and garden market. Fuelled by aging baby-boomers, who are turning to gardening in record numbers, the Canadian market is a \$4.3 billion dollar industry with an annual growth rate of 5-10 percent. The retail industry is keeping pace with demand by committing space, upgrading stores and expanding product offerings. Aggressive marketing is showing results as Nu-Gro captures listings, creates awareness, loyalty and repeat sales for its brands, and maintains strong customer relationships.

In addition to demanding higher quality products and services, consumers are looking to branded products. Nu-Gro is broadening its consumer product offerings through increased production under industry leading brand names and strategic additions of effective and environmentally friendly products.

This past year, Nu-Gro consolidated its position as the leader in Canada's golf course industry. With the acquisition of Scotts ProTurf® business the company's position in this market segment has been strengthened.

The golf course industry is also growing, benefiting from the aging baby-boomer demographic, and Nu-Gro is fully prepared to provide the products it needs.

Nu-Gro has vertically integrated into the manufacturing of premium controlled release nitrogen products and now has the broadest portfolio of these products in the world. The recently announced agreements with Terra and Agrium expand these product offerings into the specialty fertilizer market.

The upcoming fiscal new year will bring new challenges and opportunities. The acquisition of Pursell Vigoro Canada, a large manufacturer and seller of consumer and professional turf market products, adds high quality products, new brands and an experienced work force that will enhance our business.

Nu-Gro is also reinvesting in its fertilizer segment by constructing a new 20,000 ton per year facility at Terra's Courtright, Ontario site.

Nu-Gro is not standing still but entering the new year with a highly motivated workforce, a strong balance sheet and an advantageous market position in both consumer and professional products. Management will continue to actively seek new opportunities to grow the business through acquisitions that are easily integrated into existing operations and strategic in their fit.

Board of Directors of Nu-Gro



Larry M. Agranove



Austin C. Beutel



Robert J. Beutel



John D. Hill



Dale W. Massie



Frank D. White

Officers of Nu-Gro



Mark A. Barbera,
Vice President and General
Manager, Nu-Gro Technologies, Inc.



Austin C. Beutel,
Chairman



Greg J. Flanagan,
Chief Financial Officer
and Secretary



Don J. Gayford,
Vice President and General
Manager, Consumer Products



John D. Hill,
President, C.E.O.



Jay M. Pollack,
Vice President, Marketing



Sherry A. Stewart,
Vice President, Human
Resources and Administration



Sheldon O. Witte,
Vice President, Operations and
General Manager, Professional
Products



Cultivating
Growth

Solicitors

Stikeman, Elliot
(Toronto, ON)
McCarter, Grespan,
Robson, Beynon, Thompson (Kitchener, ON)

Transfer Agent

Montreal Trust (Toronto, ON)

Shares Listed And Traded

Toronto Stock Exchange – NU

Auditor

Ernst & Young LLP (Kitchener, ON)

Annual General Meeting

February 7, 2001 at 4:15 p.m. (Toronto time)
Toronto Stock Exchange Auditorium
130 King St. W., Toronto, ON

www.nu-gro.com

www.nugrotech.com

www.cil.nu-gro.com

www.wilson.nu-gro.com

www.greenearth.ca

www.vigoro.on.ca





Manufacturing Centres

Consumer/Professional Products
Raw Materials – Controlled Release Nitrogens

Calgary, Alberta

Fertilizer and cat litter;
distribution for Western
Canada

Louisiana, Missouri (Nitroform™)

Courtright, Ontario (S.C.U.®)

Brighton, Ontario

Pesticide products

Moosecreek, Ontario

Soil products

Montreal, Quebec

Fertilizer and distribution
centre for Quebec and
Maritimes; professional
products distribution centre

Gloversville, New York (Nutralene™)

Brantford, Ontario

Head office and warehousing

Tillsonburg, Ontario

Fertilizer and ice melt products

Woodstock, Ontario

Horticultural centre for soils,
manures, decorative stone,
and distribution

Putnam, Ontario

Fertilizer, cat litter, and
specialized professional
turf products

Delphos, Ohio

(PSCU Distribution Centre)

Mobile, Alabama (IBDU™)



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www.nu-gro.com



The Nu-Gro Corporation
The Consolidated Financial Statements
September 30, 2000



Cultivating
Growth

Information About Industry Segments

Nu-Gro's business is organized in two industry segments – Consumer Packaging and Fertilizer Raw Material.

Within the Consumer Packaging segment, Nu-Gro is Canada's leading manufacturer and seller of packaged consumer and commercial lawn and garden products. Popular brand names include C-I-L®, Green Earth® and Wilson®. Within the Fertilizer Raw Material segment, Nu-Gro produces and distributes controlled release nitrogen raw material in the fertilizer industry worldwide.

Segmented information is presented in note 15 of the audited consolidated financial statements and a discussion of the operating results is presented below according to these segments.

Consumer Packaging

Sales in the consumer packaging segment increased \$10 million (14%) in 2000. \$3 million was attributed to the acquisition of the ProTurf® business from Scotts, which closed effective May 31, 2000.

Internal growth generated \$7 million of the sales increase. This 10% internal growth rate was fueled by the launch of new products, including \$4 million from the addition of Bayer's Merit® insecticide product. Merit was recently registered for use in Canada for grub control in the professional market and has been used in the United States for the past seven years. \$1.0 million increase in sales was from the relaunch of the Green Earth product line. This is a comprehensive line of pest control products that contain natural, organic or botanical based ingredients. The Green Earth line is being extended in 2001 with lawn and garden fertilizers and indoor soils.

Profit attributable to the consumer packaging segment increased \$1.9 million over 1999. This increase in income can be attributed to the increase in sales.

Lawn and Garden Fertilizers represent 37% of total consumer packaging sales. The C-I-L brand, combined with the acquisition subsequent to year-end of the So-Green® and Vigoro® brands, reinforces our position as the leader in the Canadian lawn and garden fertilizer market. Competitive brands include Scotts and Nutrite. Nu-Gro has two significant competitive advantages over its competitors. The company owns fertilizer blending locations that are strategically located across Canada. This provides us with unsurpassed logistics and distribution expertise. The second advantage is the company owns manufacturing facilities and the associated technology to produce controlled release nitrogen ("CRN"), the primary ingredient in lawn and garden fertilizer.

Pest Control Products represent 40% of total consumer packaging sales. These products are marketed to the same channels as the consumer and commercial lawn and garden fertilizer product lines. Nu-Gro sells products under the C-I-L, Green Earth and Wilson brand names, which together represent an estimated 30% market share. Competitive brands include Green Cross, Safers, Chemfree and Laters.

Horticultural Products represent 14% of consumer packaging sales. These products include a full range of indoor and outdoor soils and horticultural amendments including topsoil, potting soil, manure, Triple Mix® and decorative stone. Our horticultural product line margins were enhanced by creating value-added soils containing slow release fertilizer and/or Profile® - a natural clay pellet soil amendment. Overall, horticultural products have low sales value per unit of weight making freight costs a significant part of the retail customer's product cost. By offering our retailer customers a wide selection of products, they are able to combine shipments of horticultural and fertilizer products to reduce freight costs. There are a number of small regional competitors in the market.

Pet Products - Cat litter products represent 9% of consumer packaging sales. Cat litter is packaged at the Putnam and Crossfield facilities and complements the seasonal aspects of the lawn and garden business.

In respect of the Nu-Gro acquisition of Pursell Vigoro Canada, after year-end, additional annual sales of \$20 million will be generated from a fertilizer and ice melt product line. Consumer lawn fertilizers are marketed under the Vigoro® and So-Green® brands. The Vigoro trademark is used under a 20-year license agreement.

Fertilizer Raw Material

Sales in the fertilizer raw material segment increased \$2 million (3%). Sales growth has been limited by production capacity at the locations producing the S.C.U.® and Nutralene® products; additionally average selling prices per ton in fiscal 2000 were lower than in fiscal 1999.

Profit attributable to the fertilizer raw material segment increased \$1.4 million (10%). The increase in the profit rate is attributable to two factors; S.C.U. and Nutralene production efficiency has increased beyond the design capacity of the plants, which has improved profit margins. The profit margin also benefited from favourable pricing contracts on raw materials.

Within the fertilizer raw material segment, Nu-Gro manufactures four controlled release nitrogen products.

Sulphur Coated Urea ("S.C.U.") is manufactured at Courtright, Ontario, which is operating at capacity. The plant is located within Terra's world class nitrogen facility. Terra supplies high quality urea under a ten year supply agreement, which was renegotiated in July 2000 to increase the quantity of urea from 35,000 to 75,000 tons. Nu-Gro will sell the specialty sized urea in the North American turf and ornamental markets. In addition, this control of additional sized urea will be a significant advantage for Nu-Gro when we decide to increase production capacity. Increased S.C.U. demand has been met by substituting Scotts' PSCU. Sales in this product line increased 23% over fiscal 1999 levels. During the year, the Scotts' sales and distribution agreement was renewed and the term extended to 2005.

Nutralene is manufactured in Gloversville, New York, which is operating at capacity. In August 2000, work commenced on the construction of a new methylene urea plant at Terra's nitrogen facility. The new plant is expected to add 20,000 tons of production capacity, which is more than double our current production level. The increased capacity will allow us to shift production in Gloversville to Organiform® and other products we have not been able to aggressively market. The new site also offers increased transportation capabilities and is located closer to our principal markets. The new plant is expected to be operational in the spring of 2001.

Nitroform® is manufactured under an exclusive supply agreement with Aqualon Company, a division of Hercules, Inc., located in Louisiana, Missouri. During the year, the term of the agreement was extended for an additional five years in August 2000 and Nu-Gro agreed to invest in capital upgrades to improve the product quality, increase finished goods storage and produce a new "greens" grade of product. The golf course market has demanded this grade of product and we have not been able to fill this demand. These modifications are expected to be completed in the spring of 2001.

IBDU® is manufactured in Mobile, Alabama. This is one of three facilities in the world and the only plant in North America. Excess capacity exists at this facility and we are exploring new uses for this unique product.

Sales, Marketing and Administration

The introduction of new products and the relaunching of existing products have been an important element of Nu-Gro's internal growth in the Consumer segment. Winning the shelf at retail means increased listings, increased product exposure and opportunities for growth. New consumer products and relaunched products in the fiscal 2000 include:

Merit® insecticide product line	Green Earth® relaunch	C-I-L® Ultimate Soils
C-I-L® aerosols and No-Bite® Repellent	C-I-L® Ultimate Fertilizers	

In fiscal 2001, Nu-Gro plans to introduce an expanded line of Green Earth products including lawn and garden fertilizers, indoor soils and additional pest control products. We are relaunching C-I-L Golfgreen™ with new formulas and packaging. Many of the existing C-I-L and Wilson pest control products packages have been redesigned to improve point of sale impact.

During fiscal 2000, SG&A expenses increased \$2.5 million and to 12% of sales from 11%. Marketing spending was increased to heighten brand awareness, product interest, loyalty and repeat sales and support the launch of new products – both within our retail customers' stores as well as externally through media advertising.

Risks and Uncertainties

The company operates in a seasonal industry with 66% of sales occurring in the second and third quarters of the fiscal year. The company is not able to produce at a level to meet demands in the season and builds inventory to meet anticipated demand. Demand is impacted by weather conditions. Retail sales in the Southern Ontario market were adversely impacted by wet weather, which has led to higher inventories both at retail and within Nu-Gro.

The key ingredients in the company's products are commodities and specialty chemicals. The products are generally readily available in the market place and no one source is considered essential. The commodity prices are subject to market fluctuations and changes in the value of the U.S. currency.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

The company derives 15% of its revenue from Canadian Tire. The company has a long standing relationship with Canadian Tire but the loss of this or any other significant customer would have a negative impact on earnings. The company's top ten consumer packaging customers represent 54% of consumer packaging sales. Recent consolidations in the retail market and vendor consolidation programs by retailers are increasing the concentration of sales to large retailers.

Nu-Gro holds an exclusive license to use the C-I-L brand name in the Canadian home and garden industry. The license agreement commenced in October 1991 and was renegotiated in July 2000 to extend the term to 2040. The company also entered into a 20 year license commencing November 1, 2000 for the Vigoro brand in the Canadian home and garden industry.

Liquidity and Capital Resources

Cash flow from operations was \$13.8 million, which is up slightly from 1999 due to the higher net income. Changes in working capital consumed an additional \$5 million over last year, which is due primarily to higher inventory. Inventory is up \$9 million over 1999. The inventory is up \$3 million due to the acquisition of the Scotts ProTurf business and other product line extensions. Bulk fertilizer inventory was increased \$3 million in an effort to improve customer service in the fertilizer raw material segment. The remaining \$3 million is increases in packaged inventory. Pesticide production increased 19%, in anticipation of higher sales and to assist with the transition from owned facilities to a joint venture arrangement with Mor-Pac. Sales of consumer products were lower than anticipated due partially to the wet spring weather in Southern Ontario.

Cash used in investing activities is \$10.2 million, an increase of \$6.8 million. \$2.7 million of the increase can be attributed to the increased acquisition spending. In fiscal 1999, Nu-Gro acquired a 50% interest in Mor-Pac, the cost of which was offset from proceeds on the sale of the Dundas production facility. In fiscal 2000, Nu-Gro acquired the Scotts ProTurf business for \$2.7 million. \$4.1 million of the increase is due to increased spending on capital assets. Capital spending in 2000 is higher than historical levels because Nu-Gro acquired a new production facility in Crossfield, Alberta and relocated its Calgary, Alberta operations to the new larger facility. The Crossfield facility will also have the capability to package and distribute horticultural products as well as to warehouse pesticide. Subsequent to year-end, Nu-Gro completed the acquisition of Pursell Vigoro Canada for a purchase price of \$10.2 million.

Cash generated from financing activities was \$5.1 million, an increase of \$13.8 million from fiscal 1999. New five-year term loans were advanced for \$8.5 million at a fixed interest rate of 6.8% to finance the purchase of capital assets and the Scotts ProTurf acquisition. In fiscal 1999, excess cash was used to pay down term loans and in fiscal 2000, only scheduled debt repayments were made. As a result, total debt at September 30, 2000 was nearly \$15 million compared to nearly \$9 million in 1999. Shareholders' equity at September 30, 2000 was \$46 million compared to \$35 million in 1999. The increase can be attributed to net income of \$10.5 million.

The company has operating lines of credit of \$39 million to finance working capital requirements of the business. The company also has available a \$15 million acquisition line of credit. \$10 million was advanced on this acquisition line of credit November 1 to finance the purchase of the Pursell Vigoro Canada business. The cost of the operating line of credit is at bank prime. The term loans average interest cost is 6.7%.

Health, Safety and Environment

Environmental and safety concerns often enter into discussions related to pesticide use. All pesticide products must be registered with Health Canada before they can be sold. Nu-Gro purchases approved products from international chemical companies including Bayer, Dow Chemical, and Novartis. The inability to obtain or the cancellation of any registrations could have a negative impact on operations. The severity would depend on the availability of substitute products, the nature of the products involved or the impact on our competitors.

A number of significant events occurred during fiscal 2000 related to pesticide products. In May 2000, the Standing Committee on the Environment presented a report to the Federal Government on the future of pesticide regulations in Canada. In the report, they recommended that "cosmetic" uses of pesticides be banned. Health Minister Alan Rock responded to the report in October 2000 and confirmed that Health Canada intends to apply a science-based approach in pesticide regulation and presented an action plan on the urban use of pesticides. In September 2000, Health Canada also issued notice that it intends to cancel the registered use of Dursban in and around the home and that they are also re-evaluating other registered uses of organophosphate insecticide products. Dursban sales in fiscal 2000 were \$5 million.

Nu-Gro facilities are regulated with respect to the handling and storage of chemicals or waste and with respect to air and water discharges. The Company has a Corporate Environmental Management Program that ensures policies are integrated, record keeping is standardized and environmental problems are identified and responded to. The program is audited on a biannual basis by an independent consulting firm. The company is in compliance with existing environmental and health and safety legislation and includes these matters as a standing agenda item on all meetings of the Board of Directors.

Outlook

The Globe and Mail, Report on Business Magazine October 2000 edition ranked the Nu-Gro Return on Capital ratio, 30 out of 1,000 public companies. Despite this past performance and an increase in both revenues and earnings, our share price closed at \$5.50 on September 30, 2000, down from \$6.40 one year earlier. The decline, in our view, mirrors the general lack of interest in smaller capitalization companies in the more traditional industries, regardless of performance and prospects. Looking forward to fiscal 2001 the following factors should be considered:

1. The Pursell Vigoro Canada acquisition was completed effective November 1, 2000 and the ProTurf acquisition was completed effective May 31, 2000. Fiscal 2001 results will benefit from a full year of operations from these two acquisitions, whereas fiscal 2000 results includes four months of activity from the ProTurf acquisition.
2. The commodity prices of certain fertilizer inputs have been trending upward during the year and selling prices will be adjusted to offset these anticipated cost increases.
3. The company has commenced construction of a new Nutralene plant, which is expected to be operational in the spring of 2001. Capital asset purchases are expected to nearly double the fiscal 2000 level, due substantially to this project.
4. We expect to be an active participant in the ongoing discussions related to changes in pesticide regulations and new products will be added to the Green Earth product line in anticipation of increased demand for these products.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The Company's management is responsible for the preparation and presentation of the consolidated financial statements and all information in this Report to Shareholders. The consolidated financial statements were prepared by management in accordance with accounting principles generally accepted in Canada. Where alternative accounting methods exist, management has selected those it considered to be most appropriate in the circumstances. Financial statements include certain amounts based on estimates and judgements. Management has determined such amounts on a reasonable basis designed to ensure that the consolidated financial statements are presented fairly, in all material respects. Financial information presented elsewhere in this Report to Shareholders has been prepared by management to ensure consistency with that in the consolidated financial statements. The consolidated financial statements have been reviewed by the Audit Committee and approved by the Board of Directors of the Company.

Management is responsible for the development and maintenance of systems of internal accounting and administrative cost controls of high quality, consistent with reasonable cost. Such systems are designed to provide reasonable assurance that the financial information is accurate, relevant and reliable and that Nu-Gro's assets are appropriately accounted for and adequately safeguarded.

The Company's Audit Committee is appointed by its Board of Directors annually and is comprised solely of outside directors. The Committee meets periodically with management, as well as with the independent auditors, to satisfy itself that each is properly discharging its responsibilities, to review the consolidated financial statements and the independent auditors' report and to discuss significant financial reporting issues and auditing matters. The Audit Committee reports its findings to the Board of Directors for consideration when approving the consolidated financial statements for issuance to the shareholders.

The consolidated financial statements have been audited by Ernst & Young LLP, the independent auditors, in accordance with generally accepted auditing standards on behalf of the shareholders. The Auditors' Report outlines the nature of their examination and their opinion on the consolidated financial statements of the Company. The independent auditors have full and unrestricted access to the Audit Committee.



John D. Hill
President & C.E.O.



Greg J. Flanagan, C.A.
Chief Financial Officer
and Secretary

October 20, 2000

AUDITORS' REPORT

To the Shareholders of The Nu-Gro Corporation

We have audited the consolidated balance sheets of The Nu-Gro Corporation as at September 30, 2000 and 1999 and the consolidated statements of income, retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Canada. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at September 30, 2000 and 1999 and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in Canada.

Ernst & Young LLP

Ernst & Young LLP
Chartered Accountants
Kitchener, Canada

October 20, 2000 (except as to Note 16, which is as of November 1, 2000)

CONSOLIDATED BALANCE SHEETS

As at September 30
[in Thousands]

2000 1999
\$ \$

ASSETS

CURRENT

Cash and cash equivalents	2,407	—
Accounts receivable [note 2]	17,540	16,488
Inventories [note 4]	28,297	18,988
Prepaid and other expenses	697	272

TOTAL CURRENT ASSETS	48,941	35,748
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Capital assets [note 5]	24,172	19,622
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Trademarks and goodwill [note 6]	11,247	11,226
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TOTAL ASSETS	84,360	66,596
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LIABILITIES AND SHAREHOLDERS' EQUITY

CURRENT

Bank indebtedness [note 7]	—	1,325
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Accounts payable and accrued liabilities	19,976	19,262
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Income taxes payable	2,242	823
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Current portion of long-term debt [note 8]	3,276	1,985
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TOTAL CURRENT LIABILITIES	25,494	23,395
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Long-term debt [note 8]	11,433	6,324
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Future income taxes [note 11]	1,116	1,516
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	38,043	31,235
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Commitments (notes 12 & 13)

SHAREHOLDERS' EQUITY

Share capital [note 9]	14,927	14,821
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Retained earnings	30,874	20,410
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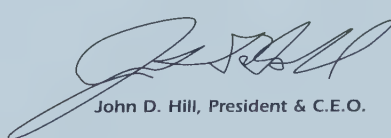
Cumulative translation adjustment	516	130
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TOTAL SHAREHOLDERS' EQUITY	46,317	35,361
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TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	84,360	66,596
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See accompanying notes

On behalf of the Board:



 John D. Hill, President & C.E.O. Austin C. Beutel, Chairman

CONSOLIDATED STATEMENTS OF INCOME

Years ended September 30 [In Thousands, except for earnings per share]	2000 \$	1999 \$
SALES	142,710	131,150
COST OF SALES	103,566	95,161
GROSS MARGIN	39,144	35,989
EXPENSES		
Sales, administration and marketing	17,207	14,650
Amortization [notes 5 and 6]	3,762	3,552
Interest on long-term debt	768	851
Interest - other	460	733
Loss on sale of capital assets [note 3[b]]	—	1,113
	22,197	20,899
Income before income taxes	16,947	15,090
Income taxes [note 11]	6,483	5,921
NET INCOME	10,464	9,169
Accretion on equity component of convertible debentures [net of income taxes of \$54 in 1999]	—	(81)
NET EARNINGS APPLICABLE TO COMMON SHARES	10,464	9,088
EARNINGS PER COMMON SHARE [note 10]		
Basic	.78	.72
Fully diluted	.74	.66

See accompanying notes

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

Years ended September 30 [In Thousands]	2000 \$	1999 \$
RETAINED EARNINGS, BEGINNING OF YEAR	20,410	11,322
Net income	10,464	9,169
Accretion on equity component of convertible debentures [net of income taxes of \$54 in 1999]	—	(81)
RETAINED EARNINGS, END OF YEAR	30,874	20,410

See accompanying notes

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended September 30 [In Thousands]	2000 \$	1999 \$
OPERATING ACTIVITIES		
Net income	10,464	9,169
Add (deduct) non-cash items:		
Amortization	3,762	3,552
Future income taxes	(400)	(182)
Loss on sale of capital assets [note 3[b]]	–	1,113
	13,826	13,652
Changes in non-cash working capital items	(6,378)	(1,638)
CASH PROVIDED BY OPERATING ACTIVITIES	7,448	12,014
INVESTING ACTIVITIES		
Purchase of capital assets	(7,566)	(3,488)
Acquisitions [note 3[d]]	(2,656)	(918)
Proceeds on disposal of capital assets	–	1,047
CASH USED IN INVESTING ACTIVITIES	(10,222)	(3,359)
FINANCING ACTIVITIES		
Bank indebtedness	(1,325)	(3,177)
Issuance of common shares for cash [note 9]	106	102
Proceeds on long-term debt	8,780	1,000
Repayment of long-term debt	(2,380)	(6,580)
CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	5,181	(8,655)
NET INCREASE IN CASH AND CASH EQUIVALENTS DURING YEAR	2,407	–
Cash and cash equivalents, beginning of year	–	–
CASH AND CASH EQUIVALENTS, END OF YEAR	2,407	–
SUPPLEMENTARY INFORMATION		
Interest paid	(1,212)	(1,584)
Income taxes paid	(5,064)	(6,224)

See accompanying notes

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements of the Company have been prepared by management in accordance with accounting principles generally accepted in Canada. Because a precise determination of many assets and liabilities is dependent upon future events, the preparation of the consolidated financial statements necessarily involves the use of estimates and approximations. The consolidated financial statements have, in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the accounting policies summarized below:

Principles Of Consolidation

The consolidated financial statements include the accounts of the Company, its wholly-owned Canadian subsidiaries SCU Nitrogen Inc., Wilson Laboratories Inc., Nu-Gro IP Inc. and its wholly-owned American subsidiaries, Nu-Gro America Corp., Nu-Gro Technologies Inc., and IB Nitrogen Inc. The Company's 50% interest in Mor-Pac Limited is accounted for using the proportionate consolidation method to include the Company's share of the joint venture's assets, liabilities, revenues and expenses.

The purchase method has been used to account for all acquisitions and the results of operations of businesses acquired are included only from the effective date of their respective acquisitions. Inter-company balances and transactions, including profits in inventories, are eliminated.

Inventories

Inventories are valued at the lower of cost and market value with cost being determined on the first-in, first-out basis. Finished goods cost includes an applicable share of direct labour and manufacturing expenses. Market value is net realizable value for packaged goods and is replacement cost for raw materials, packaging and bulk fertilizer.

Capital Assets

Capital assets are carried at cost. Amortization is provided on the straight-line basis over the expected lives of the assets commencing when the asset is available for use, using the following useful lives:

Buildings and leasehold improvements	10 - 20 years
Machinery and equipment	5 - 10 years
Print plates	3 years
Computer software/hardware	3 years

Trademarks And Goodwill

Goodwill, representing the excess of purchase price over the fair value of the net assets acquired is being amortized on a straight-line basis over a period of 20 years. The carrying value is assessed on an ongoing basis by comparison to the estimated undiscounted future cash flows of the acquired businesses. Any permanent impairment in the value of goodwill is written off against earnings.

Trademarks are carried at cost. Amortization is provided on a straight-line basis over 20 years, which is the expected asset life.

Income Taxes

The Company follows the liability method of tax allocation in accounting for income taxes. Future tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities, and are measured using the substantially enacted tax rates and laws that will be in effect when the differences are expected to reverse.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign Currency Translation

The financial statements of the Company's foreign operations, which are considered self-sustaining, are translated into Canadian dollars as follows:

Assets and liabilities – at the rates of exchange in effect at the balance sheet date.

Revenue and expense items – at rates of exchange approximating the average rates of exchange for the year.

Exchange gains and losses arising on translation of the accounts of the foreign operations are deferred and taken to the currency translation account as part of shareholders' equity.

Transactions of the Company denominated in foreign currencies are recorded in Canadian dollars at exchange rates in effect at the related transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at exchange rates in effect at the balance sheet date. Resulting exchange gains or losses are included in income.

Cash And Cash Equivalents

The Company considers all highly liquid temporary cash investments, with an original maturity of three months or less when purchased, to be cash equivalents. Cash equivalents are carried at cost, which approximates market value.

Stock-Based Compensation Plan

The Company has a stock-based compensation plan, which is described in note 9 (c).

The options are granted at the fair market value of the shares on the day of grant of the options.

No compensation expense is recognized at the time stock options are issued. Consideration received by the Company on the exercise of stock options is credited to share capital.

2. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Concentration Of Credit Risk

The Company's accounts receivable relate primarily to product sales to a range of customers in Canada and United States. Credit limits, credit evaluation and account monitoring procedures are utilized to minimize the risk of loss. One customer accounted for 16% of the accounts receivable year-end balance at September 30, 1999.

Fair Value Of Financial Instruments

The carrying values of accounts receivable, bank indebtedness, accounts payable and income taxes payable approximate fair values due to the immediate or short-term maturities of these financial instruments. The fair value of obligations under long-term debt, calculated at the present value of future contractual payments of principal and interest, discounted at the current market rates of interest available to the Company for debt instruments with similar terms and maturity, approximate the carrying value.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3. ACQUISITIONS AND DISPOSITIONS

a] On May 31, 2000, the Company acquired the Canadian professional turf business of The Scotts Company. The purchase price of \$2,081,000 [\$1,392,000 U.S.] was allocated as follows:

[In Thousands]	\$
Inventory	1,935
Goodwill	146
	2,081

b] On May 31, 1999, the Company disposed of the assets of its dry and liquid pesticide formulation businesses and entered into supply agreements with the purchasers. An accounting loss of \$1,113,000 arose on the disposal of the business assets.

The liquid pesticide formulation business was sold to Mor-Pac Limited and the terms of the transaction included the acquisition by the Company of a 50% interest in the common shares of Mor-Pac Limited. As the investors exercise joint control over the economic activities of Mor-Pac Limited, the investment is accounted for as a joint venture.

Details of the transaction included preferred share consideration of \$400,000 and an investment in common shares of \$650,000. The particulars are as follows:

[In Thousands]	\$
Working capital	232
Capital assets	1,334
	1,566
Long-term debt	(437)
Future income taxes	(79)
	1,050

The book value of the Company's share of the assets and liabilities of the joint venture at September 30, 2000 and 1999 are not materially different from the assigned values noted above and accordingly, financial information relating to the joint venture's assets and liabilities as at year-end is not provided. The Company's share in the operating results and cash flows of the joint venture for the 2000 and 1999 fiscal years are not material to the consolidated financial statements.

c] The terms of the 1996 acquisition of the Nutralene and Nitroform trademarks and related business provided for additional consideration [based on the net sales amount] should the acquired business exceed certain cumulative net sales amounts during the first five years of ownership (fiscal 2001 being the final year). During the 1999 fiscal year, the net sales threshold was exceeded and accordingly, additional consideration of \$293,000 [\$194,000 U.S.] was recorded in the 2000 fiscal year to the carrying value for trademarks (\$263,000 in 1999 [\$177,000 U.S.]).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3. ACQUISITIONS AND DISPOSITIONS (continued)

d) Cash used in acquisition activities is comprised of the following:

[In Thousands]	2000 \$	1999 \$
Purchase of interest in Mor-Pac Ltd.	—	650
Payment of 1998 Nu-Gro Technologies Inc. additional consideration	—	268
Payment of 1999 Nu-Gro Technologies Inc. additional consideration	312	—
Payment of 1999 Nutralene & Nitroform additional consideration	263	—
Purchase of Canadian professional turf business	2,081	—
	2,656	918

4. INVENTORIES

[In Thousands]	2000 \$	1999 \$
Raw materials and packaging	8,163	6,025
Bulk fertilizer	7,550	4,818
Packaged goods	12,584	8,145
	28,297	18,988

5. CAPITAL ASSETS

2000 [In Thousands]	Cost \$	Accumulated Amortization \$	Net Book Value \$
Land	1,259	—	1,259
Buildings and leasehold improvements	14,878	3,136	11,742
Machinery and equipment	18,520	8,863	9,657
Print plates	1,488	904	584
Computer software/hardware	1,472	542	930
	37,617	13,445	24,172

1999 [In Thousands]	Cost \$	Accumulated Amortization \$	Net Book Value \$
Land	1,158	—	1,158
Buildings and leasehold improvements	10,093	2,557	7,536
Machinery and equipment	16,781	7,326	9,455
Print plates	1,346	596	750
Computer software/hardware	876	153	723
	30,254	10,632	19,622

Amortization on capital assets is \$3,141 [\$2,923 in 1999].

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

6. TRADEMARKS AND GOODWILL

	2000 \$	1999 \$
[In Thousands]		
Trademarks	6,164	5,519
Goodwill	7,057	7,002
	13,221	12,521
Less accumulated amortization	1,974	1,295
NET BOOK VALUE	11,247	11,226

Amortization on trademarks and goodwill is \$621 [\$629 in 1999].

7. BANK INDEBTEDNESS

Collateral for the bank revolving operating lines of credit includes a general assignment of inventories and accounts receivable. The Company has available to it an operating line of \$35,000,000 Canadian [or U.S. equivalent] at an interest rate of bank prime [7.5% at September 30, 2000 (6.25% at September 30, 1999)] for Canadian dollar borrowings and U.S. base rate [10.0% at September 30, 2000 (8.25% at September 30, 1999)] for U.S. dollar borrowings. The balance outstanding on the operating line of credit as at September 30, 2000 was \$0 [\$1,630,000 in 1999]. An additional operating line of \$4,521,000 [\$3,000,000 U.S.] at an interest rate equivalent to the U.S. base rate is available to support the U.S. operations.

In addition to the operating lines of credit, the Company has an available acquisition line of credit of \$15,000,000. The terms of the acquisition line include a one year revolving period with an option to extend for an additional year at the discretion of the bank. Interest during the revolving period will be bank prime plus 0.05% to 0.25% dependent on the Company's EBITDA. At the end of the revolving period, the line of credit is convertible to a three year term facility payable in quarterly installments of principal and interest bearing interest at bank prime plus 0.125% to 0.5%.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

8. LONG-TERM DEBT

	2000	1999
[In Thousands]	\$	\$
Term bank loans payable in monthly principal installments of \$101, plus interest at 6.81%. The loans mature in May 2007. A general security agreement has been provided as collateral.	8,095	—
Term bank loans payable in monthly principal installments of \$170 [\$125 in 1999], plus interest at 5.84% to 7.5%. The term loans mature at dates ranging from December 2001 to April 2005. A general security agreement has been provided as collateral.	6,614	8,309
	14,709	8,309
Current portion	3,276	1,985
	11,433	6,324

The principal repayments on long-term debt are as follows:

Fiscal year	\$ [000s]
2001	3,276
2002	2,887
2003	2,325
2004	2,241
2005	1,696
Thereafter	2,284

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

9. SHARE CAPITAL

A] Authorized

The authorized capital of the Company consists of an unlimited number of non-voting preferred shares issuable in series and an unlimited number of common shares.

B] Changes In Stated Capital

	2000 Number of Shares/Warrants	\$ [000\$]	1999 Number of Shares/Warrants	\$ [000\$]
COMMON SHARES				
Balance, beginning of year	13,319,992	14,801	11,675,852	9,853
Issued pursuant to existing stock options and warrants	80,150	106	77,475	102
Conversion of convertible debentures	—	—	1,566,665	4,846
Balance, end of year	13,400,142	14,907	13,319,992	14,801
WARRANTS				
Balance, beginning of year	468,250	20	479,625	20
Warrants exercised	(58,500)	—	(11,375)	—
Balance, end of year	409,750	20	468,250	20
Total balance, end of year		14,927		14,821

C] Stock Options

Stock options have been granted to certain senior employees and directors of the Company for the purchase of common shares. These options vest and are exercisable for a period up to seven years after the date of grant. As at September 30, 2000 there are 599,400 options outstanding; 244,800 of which are vested. There are 136,000 shares available for future grants under the plan.

A summary of option activity is shown below:

Options Outstanding	Number	Exercise Price \$ Range	Weighted Average Exercise Price
Balance, September 30, 1998	388,400	1.15 - 3.55	2.64
Granted during year	240,000	3.10 - 6.40	4.55
Exercised during year	(66,100)	1.15 - 3.10	1.38
Cancelled during year	(10,000)	3.55	3.55
Balance, September 30, 1999	552,300	1.60 - 6.40	3.61
Granted during year	75,000	5.50	5.50
Exercised during year	(21,650)	1.60 - 3.55	2.20
Cancelled during year	(6,250)	1.60	1.60
Balance, September 30, 2000	599,400	1.60 - 6.40	3.92

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

9. SHARE CAPITAL (continued)

C] Stock Options (continued)

The weighted average characteristics of options outstanding as at September 30, 2000 are as follows:

OPTIONS OUTSTANDING				OPTIONS EXERCISABLE	
Range of Exercise Price	Number Outstanding	Weighted Average Remaining Life in Years	Weighted Average Exercise Price	Number Outstanding	Weighted Average Exercise Price
1.60	28,400	1.0	1.60	28,400	1.60
2.90 - 3.55	396,000	4.9	3.15	183,400	3.04
5.50 - 6.40	175,000	4.4	6.01	33,000	6.40
TOTAL	599,400	4.6	3.92	244,800	3.32

D] Warrants

There are 409,750 warrants outstanding; 9,750 warrants are exercisable until October 31, 2000 at \$1.00 per share with the remaining warrants exercisable until March 31, 2003 at \$3.75 per share. During the year, 58,500 warrants were exercised at \$1.00 per share.

E] Convertible Debentures

During the 1999 fiscal year, the conditions forcing conversion of the debentures were satisfied and the Company exercised its right to convert the debentures to common shares. The carrying value of the convertible debentures, which included both a debt and equity component, was reclassified as share capital at the date of conversion. For the period prior to conversion, the equity component of the debentures was being accreted to the maturity value through periodic charges to retained earnings.

10. EARNINGS PER COMMON SHARE

Earnings per common share has been calculated using the weighted average monthly number of common shares outstanding during the year of 13,354,598 [1999 - 12,673,468]. The reported net income for the 1999 fiscal year has been adjusted for the accretion on the equity component of convertible debentures to arrive at net earnings available to common shareholders. Fully diluted earnings per common share has been calculated using the weighted average number of common shares assuming conversion of all outstanding warrants and options. At September 30, 2000, this number was 14,363,748 [1999 - 14,309,907].

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

11. INCOME TAXES

The Company's provision for income taxes is comprised of:

	2000	1999
(In Thousands)	\$	\$
Income taxes at combined Canadian federal and provincial rates of 44%	7,457	6,640
INCREASE (DECREASE) IN INCOME TAXES APPLICABLE TO:		
Foreign tax rate differential	(603)	(474)
Manufacturing and processing deduction	(450)	(358)
Amortization of goodwill	99	111
Other items	(20)	2
	6,483	5,921
REPRESENTED BY:		
Current income taxes	6,883	6,103
Future income taxes	(400)	(182)
	6,483	5,921

The tax effect of the temporary differences that give rise to the liability for future income taxes are as follows:

	2000	1999
(In Thousands)	\$	\$
Capital assets	645	1,092
Trademarks	440	489
Other	31	(65)
TOTAL	1,116	1,516

12. OPERATING LEASES

The minimum annual lease payments under operating leases for rental of buildings, machinery and equipment in aggregate are as follows:

Fiscal year	\$ [000s]
2001	774
2002	533
2003	397
2004	319
2005	285
TOTAL FUTURE MINIMUM LEASE PAYMENTS	2,308

13. COMMITMENTS

The Company is committed to capital expenditures in the amount of approximately \$5,700,000 for the construction of a new methylene urea plant in Courtright, ON and new consumer packaging equipment in Crossfield, AB.

The Company has entered into several supply agreements that require it to purchase a minimum amount of raw materials and finished goods from several suppliers with varying terms extending to 2009. The current minimum annual amount of purchases is approximately \$27,500,000.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

14. RELATED PARTY TRANSACTIONS

Transactions with related parties not otherwise disclosed in the consolidated financial statements are presented below:

	2000 \$	1999 \$
[In Thousands]		
Transactions with Oakwest Corporation Limited, a shareholder of the Company:		
Consulting fees paid during the year	72	72
Proportionate share of transactions with Mor-Pac Limited, a joint venture company:		
Purchases of packaged products during the period	571	60
Accounts payable, end of year	14	24

15. SEGMENTED INFORMATION

A] Operating Segments

The Company has two reportable segments: consumer packaging and fertilizer raw material. The consumer packaging segment comprises a variety of fertilizer, soil and pesticide based consumer products primarily for the lawn and garden industry in Canada. The fertilizer raw material segment represents the manufacture and distribution of controlled release nitrogen raw material to the fertilizer industry worldwide.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies. The Company accounts for intersegment sales as if the sales were to third parties, that is, at current market prices.

	CONSUMER PACKAGING		FERTILIZER RAW MATERIAL		TOTAL	
	2000 \$	1999 \$	2000 \$	1999 \$	2000 \$	1999 \$
[In Thousands]						
Sales to external customers	79,756	70,085	62,954	61,065	142,710	131,150
Inter-segment sales	–	–	4,513	4,150	4,513	4,150
Segment profit	17,017	15,084	17,137	15,768	34,154	30,853
Sales, administration and marketing					17,207	14,650
Loss on sale of capital assets					–	1,113
Income before income taxes					16,947	15,090
Components comprising segment profit:						
Amortization	2,330	2,202	1,432	1,350	3,762	3,552
Interest expense	960	920	268	664	1,228	1,584
Total assets	50,893	39,453	33,467	27,143	84,360	66,596
Capital expenditures	6,519	2,827	1,047	661	7,566	3,488
Additions to trademarks and goodwill	146	–	368	575	514	575

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

15. SEGMENTED INFORMATION (continued)

B] Geographic

The following geographic information is presented based on location for capital assets, corporate jurisdiction for trademarks and goodwill, and in the case of sales, the location of the customer.

	CANADA		U.S.		OTHER		TOTAL	
	2000	1999	2000	1999	2000	1999	2000	1999
[In Thousands]	\$	\$	\$	\$	\$	\$	\$	\$
Sales to external customers	81,362	70,835	56,283	56,049	5,065	4,266	142,710	131,150
Capital assets	19,100	14,648	5,072	4,974	–	–	24,172	19,622
Trademarks and goodwill	6,428	6,617	4,819	4,609	–	–	11,247	11,226

Sales to one customer of the consumer packaging segment represents 15% of the Company's sales [13% in 1999].

16. SUBSEQUENT EVENT

On November 1, 2000, the Company acquired the assets and assumed certain liabilities of Pursell Vigoro Canada Inc. of Tillsonburg, ON. The purchase price of the net assets acquired is approximately \$10,200,000, which was financed by the Company's acquisition line of credit.

17. COMPARATIVE FIGURES

Certain of the consolidated comparative figures have been reclassified to conform to the current year's method of presentation.

NOTES



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